UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Security Administration

SHALL I REPAY MY TENANT PURCHASE LOAN UNDER THE FIXED PAYMENT PLAN OR UNDER THE VARIABLE PAYMENT PLAN?

The following questions and answers will help you decide.

As a Tenant Purchase borrower you may choose either of the two following plans of paying off your Tenant Purchase loan:

I. The Fixed Payment Plan, according to which you will be expected to pay 4.326 per cent of your loan each year regardless of your income. For example, if you have a $5,000 loan you will pay $216 each year. This will retire both the principal and interest in 40 years.

II. The Variable Payment Plan, according to which the amount you will be expected to pay each year will depend upon the amount of your net cash income. This will be shown by your family record book in which you have listed both your income and expenses. If your net cash income is large you will be expected to make a large payment. If it is little or nothing you will be expected to pay little or nothing, but the payments under this plan must also average out so that they will retire both the principal and interest of your debt in 40 years.

1. What is the chief advantage of the Variable Payment Plan?

Under this plan you may pay as you are able, and not have to worry about your loan becoming delinquent and subject to foreclosure every time you have a bad year or series of bad years. You can pay off your debt just as fast as you want to under the Variable Payment Plan, except that the law does not permit final payment in less than five years without special approval.

2. What will be your chief obligation if you choose the Variable Payment Plan?

You must be willing to pay more in good years, so that you can pay less in bad years. No one should choose the Variable Payment Plan who does not expect to do this. You should also be willing to do everything possible to keep down expenses and increase your income when you have a series of bad years.

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3. <u>What is the chief advantage of the Fixed Payment Plan</u>?

Under this plan you will know in advance exactly what your annual payment will be and be able to spend the rest of your income as you wish. You can pay more than your fixed installment if you want to, and thus pay off your debt in less than 40 years. Even if you make these advance payments, however, you will still be expected, under the Fixed Payment Plan, to make all of your regular payments as they fall due each year. If you want your advance payments to count during bad years, when you will be unable to pay anything, you should choose the Variable Payment Plan.

4. <u>What is meant by being "up to schedule," "ahead of schedule," "behind schedule" under the Variable Payment Plan</u>?

You will be "up to schedule" at any time if you have paid exactly the same that would have been due under the Fixed Payment Plan at that time; "ahead of schedule" if you have paid more than that, or "behind schedule" if you have paid less than that. The desirable thing under the Variable Payment Plan is to get well ahead of schedule so that you will have a margin of safety to carry you over bad years.

5. <u>What part of my net income must I pay under the Variable Payment Plan</u>?

   a. If you are more than three years ahead of schedule you will not be required to pay any specified amount on your loan. No doubt you will desire to maintain or increase your margin of safety by applying some of your net cash income on your debt.

   b. If you are three years ahead of schedule and have a good year you will be asked to pay 4.326 per cent of your loan which is the same as your annual installment would be under the Fixed Payment Plan.

   c. If you are two years ahead of schedule and have a good year you will be expected to pay twice the annual installment ($432.26 on a $5000 loan).

   d. If you are only one year ahead of schedule and your net cash income is sufficient, you will be expected to pay three times what your annual installment would be under the Fixed Payment Plan.

e. If you are not ahead of schedule and your net cash income is less than 4.326 per cent of your loan, you will be expected to pay all of your net cash income. This should be no hardship because your necessary living and operating expenses are allowed first, so long as they are in line with your farm and home management plan.

6. Under what conditions will my loan become delinquent?

Under the Fixed Payment Plan your loan will become delinquent any time you fail to pay your annual installment of 4.326 per cent of your loan. Under the Variable Payment Plan your loan will become delinquent only when you fail to pay the amount determined to be due any particular year. Under the Variable Payment Plan you will naturally be "ahead of schedule" a part of the time and "behind schedule" a part of the time, but being behind schedule will not make your loan delinquent. As stated, it is only failure to pay the amount requested that makes it delinquent.

7. Will I be obliged to keep more accurate records under the Variable Payment Plan than under the Fixed Payment Plan?

No. When you signed your "Loan Agreement and Request for Funds" you agreed "to keep such records and accounts as may be prescribed by the Farm Security Administration." You will be required to keep the Farm Security Administration Family Record Book regardless of whether you adopt the Fixed Payment Plan or the Variable Payment Plan. While this is done in part to protect the Government, primarily it is for the benefit of borrowers. It is expected that your record will help you greatly in your efforts to plan wisely and operate efficiently. The farm and home supervisors will give you any help you may need in getting started with your record book.

8. How about saving up money for next year's operating expenses?

Whether you are under the Fixed Payment Plan or the Variable Payment Plan you will be expected to pay whatever is due each year on principal and interest rather than hold it back to meet next year's operating expenses. Since you would be called upon to make larger payments during good years under the Variable Payment Plan than you would under the Fixed Payment Plan you could probably save up an operating fund quicker under the Fixed Payment Plan. However, you might have to use this operating fund to pay your annual installment some year when you have nothing else with which to pay it. After you once get

ahead under the Variable Payment Plan you have more freedom under it. You are eligible, under either plan, for a rehabilitation loan for operating expenses if you need it. It probably won't make much difference whether you are on the Fixed or Variable Plan so far as building up an operating fund is concerned.

9. <u>Can I change from one plan to the other?</u>

Yes. If you choose the Variable Payment Plan and after trying it out decide that you want to change to the Fixed Payment Plan, you may do so provided you are up to schedule with your payments. The Farm Security Administration reserves the right to transfer you from the Variable Payment Plan to the Fixed Payment Plan if you fail to pay the amount for which you are billed, if your records are too incomplete or inaccurate to determine your net cash income, or if you should fall behind schedule 20 per cent more than the average of all borrowers in your county for two or more years. If for any or all of these three reasons, you should be transferred to the Fixed Payment Plan you will be expected to continue thereafter on the fixed annual basis until your debt is retired.

If you choose the Fixed Payment Plan and later desire to change to the Variable Payment Plan, you may do so provided you are up to schedule with your payments.